



Make sure you have a plan for withdrawing from an RESP

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THE CANADIAN PRESS

PUBLISHED AUGUST 16, 2018UPDATED AUGUST 16, 2018

Investing in a registered education savings plan may have started when your aspiring scholar was still in diapers and university or college seemed a distant future.

But when the time comes to start withdrawing money from RESP accounts to pay for tuition, books and other costs of a postsecondary education, financial advisers say you need a plan for that too.

Nicole Ewing, a vice-president of tax and estate planning at TD Wealth, says sooner is better than later to meet with your adviser to start developing that plan.

“Depending on how the funds have been invested, there might be some time required to convert those investments to cash,” she says.

The money in an RESP account is controlled by the person who set up the account, not the student. To start withdrawing the cash, the student needs to provide proof of enrollment in a postsecondary program or institution.

By saving for postsecondary education using an RESP account, parents can benefit from matching contribution grants from Ottawa as well as other programs to help low-income families and provincial programs.

When the time comes to withdraw the money, payments from an RESP account come in two different ways – the refund of contributions and the educational assistance payments (EAP) which include investment gains as well as other amounts such as the grant money from the federal government, Canada learning bond amounts and money from various provincial programs.

Ms. Ewing says the decision about which pot of money a withdrawal comes from is made when the cash is taken from the account, but she suggests taking out the investment gains and grant money first.

“You want to use up your educational assistance payments first because if there’s any left in the pool and your child is no longer going to school and won’t be going to school those are going to need to be repaid back to the government,” she said.

The maximum EAP withdrawal is \$5,000 for the first 13 consecutive weeks of full-time studies. Once a student has finished that period, there is no limit. If you need more than \$5,000 in the first 13 weeks, additional amounts can be taken as part of the refund of contributions. The government may on a case-by-case basis also approve a higher EAP amount if cost of tuition plus related expenses for a particular program is substantially higher than average.

Part-time students are limited to up to \$2,500 in EAP withdrawals for a 13-week period.

The refund of contributions are not taxed, but the educational assistance payments are taxed as income in the hands of the student.

Depending on a student’s income and their tuition and education tax credits, they may not have to pay any tax on the money. However, Ms. Ewing says if your student is lucky enough to have well-paying job or other income, you’ll need to watch how much you take from the taxable portion in a given year or you might face a tax bill.

D’Arcy McDonald, senior vice-president, retail deposits, day-to-day banking and advisory deposit services at Scotiabank, says it is also important to have the right investment mix when it comes time to start withdrawing the money.

Mr. McDonald, who has two daughters aged 14 and 12, says as they get closer to starting university he plans to adjust the investment mix in the RESP to reduce the risk, just in case markets make a big move lower.

“If you were fully exposed to the market and you saw half of your investments disappear overnight and you didn’t have time to rebuild them in advance of having to withdraw from them, that’s painful,” he said.

Once your student starts university he suggests keeping about half the money in an easily accessible form such as a high-interest saving account and the other half in something like a 18-month or two-year GIC which offers a little more interest, but is also secure to be sure it will be there to pay for school a couple of years from now.

Ms. Ewing says it is important the students understand what their money is intended for so there’s no misunderstanding.

“It is to be used for their education, and budgeting is an important side of that,” she said.